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TAGS: [ENRG](#) [SENV](#) [ECON](#) [AS](#)  
SUBJECT: RENEWABLE ENERGY FUND: GEOTHERMAL LEFT OUT?

REF: A. CANBERRA 268  
[1](#)B. 08 CANBERRA 701

[1](#)1. (SBU) Summary: The Rudd government's A\$435 million (US\$305 million) Renewable Energy Demonstration Program (REDP) provides the best vehicle for companies seeking to commercialize new renewable energy technologies. The program is currently taking applications for what will eventually be 8-10 A\$50-100 million (US\$35.8-\$71.7 million) grants to commercialize new renewable energy generation projects. However, the scale of the program is modest compared to the size of Australia's emissions reduction targets, and more importantly, the focus on commercialization, rather than late stage research and development, potentially leaves geothermal energy (one of Australia's leading candidates for emissions-free baseload power generation) out in the cold .  
End Summary.

RENEWABLE ENERGY DEMONSTRATION PROGRAM  
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[1](#)2. (SBU) The Renewable Energy Demonstration Program (ref A) provides A\$435 million (US\$305 million) to "accelerate the commercialization and deployment of new renewable energy technologies for power generation in Australia." Australian companies close to commercializing new solar, wind, geothermal, biomass, hydropower, or ocean energy technologies are eligible. The grant application period will close on April 14; the government expects to announce winners sometime around August of this year, after reviewing all applications. While Department of Resources, Energy and Tourism (DRET) officials say there is no technical bias in the program, mature technologies like current generation wind and solar will not be funded under this program. Wendy Launder, who heads the REDP program for DRET, told econoff on April 2 that the government hopes to fund 8-10 projects, within a range of A\$50-100 million (US\$35.8-\$71.7 million). She noted that the government had raised its projected cost range from initial plans for A\$25-50 million (US\$17.9-\$35.8 million) projects based on cost growth in ongoing demonstration programs, but said in her view there might be room for much smaller grants for some technologies like biomass.

[1](#)3. (SBU) The emphasis in the program, according to Gary James, Manager for Technology Policy in the Energy and Environment Division at DRET, is to take technologies that have passed the proof-of-concept stage and "jumpstart" the next step in commercialization. Grantees will be expected to demonstrate that they can match each GOA dollar with two private sector investment dollars before they can sign a

grant agreement. This focus on commercialization will result in rapid power generation from renewable projects, but creates a problem for many of Australia's most promising but less-well developed renewable technologies. The leading example is the geothermal industry. According to Susan Jeanes, head of the Australian Geothermal Energy Association, there are 40 companies working in Australia to develop power generation from both conventional geothermal and enhanced "hot dry rock" geothermal systems. An analysis of geothermal potential in Australia shows that it has the potential to displace a huge chunk of the current brown coal generation now powering Australia - providing as much as 10 percent of Qnow powering Australia - providing as much as 10 percent of Australia's baseload power by 2050. The leading development company, Brisbane-based Geodynamics, sees the possibility of generating 500 megawatts of electricity from its Cooper Basin site alone if transmission and capital challenges can be met (ref B).

#### MUST DEMONSTRATE CONCEPT FIRST

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14. (SBU) Geodynamics is also the only geothermal company (so far) in Australia to meet the government's proof-of-concept requirement, having announced a successful closed-loop test on March 31. Jeanes told econoff on March 31 that while this is good for Geodynamics, the proof-of-concept requirement is likely bad for the rest of the industry. Jeanes described the government's focus on commercial demonstration as a "closed loop" that locks almost all of the geothermal players working in Australia out of the REDP. Geothermal companies received more than A\$50 million (US\$35.8 million) in grants

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from the Howard government as part of the initial research and development process, but the amount of funding for each project was far below that needed for commercial demonstration. Petratherm Managing Director Terry Kallis told econoff on April 3 that the government's requirements, between proof-of-concept and matching funding, basically eliminated all other players except Geodynamics and Petratherm from the program. Without the ability to tap into the REDP, many of the companies involved will face a tough challenge generating sufficient private capital to develop commercial operations, especially under the current global financial crisis. DRET's James said he expected that many would fail over the next 12-18 months, with only a few major players like Geodynamics or Petratherm having sufficient finances to survive. Kallis said that the proof-of-concept focus was a concern, but that he expected the government to look at work done outside Australia (Petratherm is a major partner in development of geothermal power in Madrid) and so sees their concept sufficiently demonstrated to qualify. In Kallis' view, only Geodynamics and Petratherm would be competitive, but as both were already relatively well-financed with major joint venture partners, and own their own drilling equipment, the decision in the end would be more political than either economic or technical. He said there was no strong indication that there would be a repeat or replenishment of the REDP in out years, so this was a one-time chance. Launder told econoff separately that while there was no decision at this point on repeating the REDP in future years, some vehicle to continue to support commercialization would be needed. She said she expected something to be done, for example, to replace the Howard government's much larger Commercial Ready grant program.

15. (SBU) The plight of the geothermal sector highlights a key challenge for the government in encouraging renewable energy development - one of its core pledges during the 2007 election. The REDP, and the Mandatory Renewable Energy Target (MRET) scheme, are designed to force technologies out of the lab and into generation as quickly as possible. However, by focusing on technologies close to commercial deployment, critics charge that the government is hampering the development of longer-lead time technologies like

geothermal, wave, other systems. Jeanes said her fear was that the MRET targets, for example, would be met very early on by wind and solar, where costs are better known and risks lower, and this would crowd out the longer-term developing technologies. Kallis said he agreed that was a risk initially, but that once developed, geothermal and other technologies would be able to "savagely" undercut wind and solar on a cost/megawatt basis. This would only happen, he noted, if the electricity customers like Origin energy and AGL were willing to buy, and not own as investors, renewable resources. If they end up being heavy investors in renewable generation, then they will act to protect those investments and future technologies could be crowded out.

16. (SBU) Comment: DRET is struggling to define the REDP program and has had to accelerate their management because of Qprogram and has had to accelerate their management because of political pressure on Rudd to get money out the door. While REDP will be very good for some players, the rapid pace of the program and the steep requirements being laid on it means that it is unlikely to receive many high-quality proposals. If the money is not spent, it is not clear to us or to interested applicants that it will not disappear into other programs in what is expected to be a very tough budget year for the government. End comment.